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AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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February 13, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink that reads "John Naimo".

SUBJECT: **PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW - LOWER
RISK DEPARTMENTS - FISCAL YEAR 2013-14**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. Our attached audit schedule (Attachment II) identifies seven departments as lower risk: Department of Health Services (DHS), Department of Public Health (DPH), District Attorney (DA), Public Defender (PD), Alternate Public Defender (APD), Fire Department (Fire), and the Executive Office of the Board of Supervisors (Executive Office).

On September 29, 2014, we issued our report for one of the seven departments, Fire. We completed a review of the remaining six lower risk departments' AB109 expenditure reimbursement claims for the 2nd and 3rd quarters (October 2013 to March 2014) of Fiscal Year 2013-14, including an evaluation of the departments' internal controls over their AB109 fiscal operations. We noted that all six departments can improve the reporting of their AB109 costs. The following are examples of areas for improvement:

- All six departments did not accurately report overhead costs. Specifically, DHS, DPH, APD, and the Executive Office did not claim any overhead costs and do not have up-to-date overhead rates to use when preparing reimbursement claims. In addition, the DA and PD over-claimed approximately \$15,300 of expenditures by including overhead as both a direct and indirect charge.

- Three of the six departments did not accurately report salary and employee benefit (S&EB) costs. Specifically, APD under-claimed \$159,000 in S&EB costs due to reporting budgeted instead of actual costs, and DPH under-claimed \$111,000 since they did not include any employee benefit (EB) costs. In addition, the DA did not apply the EB rate to all applicable costs, and claimed certain salary costs as both direct and indirect charges.

Details of these and other findings are included in Attachment I.

We discussed the results of our review with management from each of the six departments. All six departments indicated general agreement with our findings. All six departments also indicated that they have or will take immediate action to address/correct the issues identified and will ensure the accuracy of their future AB109 claimed costs.

We thank the departments' management and staff for their cooperation and assistance during our reviews. If you have any questions, please contact me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Mitchell H. Katz, M.D., Director, Department of Health Services
Cynthia A. Harding, M.P.H., Interim Director, Department of Public Health
Jeffrey Gunzenhauser, M.D., M.P.H., Interim Health Officer, Department of Public Health
Jackie Lacey, District Attorney
Ronald L. Brown, Public Defender
Janice Y Fukai, Alternate Public Defender
Patrick Ogawa, Acting Executive Officer, Board of Supervisors
Public Information Office
Audit Committee

**LOWER RISK DEPARTMENTS
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW**

Background and Scope

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State parolees. AB109 transferred community reintegration and supervision responsibility for these parolees from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) recommends an annual AB109 funding budget in consultation with each department, subject to Board of Supervisors (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salary and employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their quarterly budget.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. Our attached audit schedule (Attachment II) identifies seven departments as lower risk: Department of Health Services (DHS), Department of Public Health (DPH), District Attorney (DA), Public Defender (PD), Alternate Public Defender (APD), Fire Department (Fire), and the Executive Office of the Board (Executive Office).

On September 29, 2014, we issued our report for one of the seven departments, Fire. We reviewed the remaining six lower risk departments' 2nd and 3rd quarter (October 2013 to March 2014) AB109 claimed expenditures for Fiscal Year 2013-14, totaling approximately \$12.1 million (see chart below). The purpose of our review was to ensure the claimed expenditures were accurate, complete, and were used for AB109 activities/functions. We also evaluated the adequacy of their internal controls.

**AB109 Claims Summary
For October 2013 to March 2014**

Department	Review Period Claim Amount
Department of Health Services	\$ 4,000,000
Department of Public Health	5,100,000
District Attorney	1,400,000
Public Defender	825,000
Alternate Public Defender	259,000
Executive Office of the Board	500,000
Total:	\$ 12,084,000

Overhead Costs

The CEO and A-C require departments to claim applicable overhead costs. During our review, we noted:

- DPH, DHS, APD, and the Executive Office did not claim overhead costs. All four departments do not have up-to-date overhead rates to use when preparing reimbursement claims. Therefore, we could not determine the amount of under-claimed overhead. Departmental management indicated that they will work with the A-C Accounting Division to develop up-to-date overhead rates, submit claim adjustments for unclaimed overhead, and will ensure that they include overhead in future reimbursement claims.
- The DA and PD claimed approximately \$15,300 (\$15,000 and \$300 respectively) of services & supplies (S&S) costs as both direct and indirect (overhead) charges. This effectively double-claims for the same costs. Departmental management indicated that they will submit claim adjustments for over-claimed S&S charges, and will ensure that they do not directly charge S&S costs that are already included in their overhead rates in future reimbursement claims.
- The DA did not apply the overhead rate to overtime earnings as required. We re-calculated the overhead for the period of October 2013 to March 2014, and noted that the DA under-claimed their overhead costs by approximately \$1,500. DA management indicated that they will submit a claim adjustment for the under-claimed overhead, and will ensure that they apply the overhead rate to overtime earnings in future reimbursement claims.

Salaries and Employee Benefit Costs

The CEO and A-C require departments to claim salary and employee benefit (S&EB) costs that are directly identifiable to AB109. During our review, we noted:

- APD claimed S&EB costs based on budget instead of reporting actual costs. As a result, APD under-claimed S&EB costs by approximately \$159,000. APD management indicated that they will submit a claim adjustment for the under-claimed S&EB costs, and will ensure that they report actual costs in future reimbursement claims.
- DPH did not claim employee benefit (EB) costs. As a result, DPH under-claimed EB costs by approximately \$111,000. DPH management indicated that they will submit a claim adjustment for the under-claimed EB costs, and will ensure that they include EB costs in future reimbursement claims.
- The DA did not apply the EB rate to all applicable costs (e.g., bonuses, sick time earnings, etc.). We re-calculated the EB charges to the applicable costs for the period of October 2013 to March 2014, and noted that the DA under-claimed their EB costs by approximately \$30,000. DA management indicated that they will submit a claim adjustment for the under-claimed EB costs, and will ensure

that they apply the EB rate to all applicable costs in future reimbursement claims.

- The DA claimed approximately \$4,000 of certain salary costs (i.e., elective annual leave buyback) as both direct and indirect charges. This effectively double-claims for the same costs. DA management indicated that they will submit a claim adjustment for the over-claimed salary costs, and will ensure that they do not directly claim salary costs that are included in their EB rates in future reimbursement claims.

DHS Parole Violator Service Costs

Prior to AB109, DHS received approximately \$2.9 million annually from the State for providing health care services to parole violators awaiting revocation proceedings. The State no longer provides this funding since parole violators are now the responsibility of the County under AB109.

We noted that DHS claims a portion of the lost revenue each quarter, instead of tracking and claiming actual costs incurred for providing services to parole violators. Specifically, from October 2013 to March 2014, DHS claimed approximately \$1.5 million in lost revenue as AB109 costs. DHS management indicated that they claim lost revenue because they do not have procedures in place to track the actual costs incurred for providing these services.

DHS management indicated that they are evaluating the feasibility of implementing procedures to track actual costs incurred for providing services to parole violators. We will follow-up on the Department's progress in tracking and claiming actual costs as part of our scheduled AB109 audits in Fiscal Year 2014-15.

DPH Payments to Contractors

DPH's Substance Abuse Prevention and Control Division (SAPC) is responsible for some of the services provided to the AB109 population. SAPC contracts with treatment centers to provide public health services to the AB109 population. While the majority of the treatment centers provide services to only AB109 populations, certain Out-of-Network centers provide services to both the AB109 and general population. DPH claimed approximately \$789,000 in payments to Out-of-Network treatment centers from October 2013 to March 2014.

We noted that DPH could not ensure that the claimed payments to Out-of-Network treatment centers were only for services provided to AB109 populations since contractor invoices do not differentiate the type of populations serviced, and SAPC does not have procedures to identify the type of population serviced.

SAPC management indicated that they will implement procedures to determine the amount paid to Out-of-Network treatment centers for services provided only to the AB109 population. In addition, SAPC management indicated that they will identify any over-claimed costs in the prior periods and will submit a claim adjustment if necessary.



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE

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February 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

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Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET
AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF
OCTOBER 8, 2013)**

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

REVENUE AND EXPENDITURES

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109

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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

<u>FY 2013-14</u>	
January to March 2014	April to Jun 2014
Relative High Risk Departments: <ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	Relative Lower Risk Departments: <ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board (CCJCC and ISAB) • Fire • Health Services • Public Defender • Public Health
<u>FY 2014-15*</u>	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	<ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board • Fire • Health Services • Public Defender • Public Health

* The audit schedule for each department is subject to FY 2013-14 audit findings.

INDEPENDENT PROGRAM EVALUATIONS

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW
DT:llm

c: Executive Office, Board of Supervisors
County Counsel
District Attorney
Sheriff
Alternate Public Defender
Auditor-Controller
Fire
Health Services
Mental Health
Public Defender
Public Health
Probation